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The Canadian Institute of Actuaries appreciates the opportunity to comment on the Casualty Actuarial Society's draft of the Statement of Principles Regarding Property and Casualty Insurance Ratemaking. The CIA's Committee on Property & Casualty Insurance Pricing (hereafter the Committee) discussed the proposed changes on conference calls on November 20 and December 18, 2014.

In general, the Committee supports the proposed changes. However, it takes issue with the last two sentences in the last paragraph under "Conclusion". If the intention was to distinguish between ratemaking and insurance pricing, the changes made in the last paragraph are not clear enough. The Committee suggests that these changes be removed or the Statement should clearly state that other business considerations that are part of determining the final price fall outside the scope of the Statement of Principles and Standards of Practice.

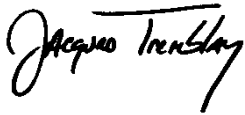
Other comments from the Committee relate mainly to the structure and wording of the definitions. To avoid potential misinterpretation, the definitions and terminology should align with the proposed Actuarial Standard of Practice as much as possible. As well:

- The structure of the definitions section should be corrected. As the section is now organized, Alternative Risk Transfer (at lines 48-50) is presented as a cost associated with the transfer of risk (it falls under the preamble at lines 20-22). The Committee suggests this definition be moved to be the first item under "Definitions" before the definition of ratemaking.
- The definition of ratemaking refers to the cost of capital, but not underwriting profit or contingency provisions. Yet, the terms that are defined include underwriting profit and contingency provisions, but not cost of capital. The Committee suggests that cost of capital be added as a defined term.

- As it is defined, underwriting profit is to include a charge for the risk of random variation of expected costs. While the Committee agrees with this definition, it notes that underwriting profit is not similarly defined in ASOP #30. (In ASOP #30, “underwriting profit” is simply defined as “premiums less losses, loss adjustment expenses, underwriting expenses, and policyholder dividends.”) The Committee also suggests that “underwriting profit” at lines 44-45 should be replaced with “underwriting profit provision” and that “random variation of” be changed to “random variation from.”  
In light of the proposed Actuarial Standard of Practice on Property/Casualty Ratemaking, the Committee questions the need for the second, third, and fourth explanatory sentences under Principle 2: “When the experience of an individual risk does not provide a credible basis for estimating these costs, it is appropriate to consider the aggregate experience of similar risks. A rate estimated from such experience is an estimate of the costs of the risk transfer for each individual in the class. A properly defined classification plan enables the development of actuarially sound rates.”
- As respects the first sentence in the last paragraph under “Conclusion,” the Committee questions the need for the newly added words “... informed actuarial judgment and...” given the proposed Standard of Practice on Property/Casualty Ratemaking. That is, why mention “informed actuarial judgment” and not the entire Standard of Practice?

The Canadian Institute of Actuaries trusts that the comments provided above will be of value. We thank you for offering us the opportunity to respond.

Yours truly,

A handwritten signature in black ink that reads "Jacques Tremblay". The signature is written in a cursive, flowing style.

Jacques Tremblay, FCIA  
President